POLICY FOR CAPITAL NEEDS ASSESSMENTS
Effective: 11/05/2013

Since 2002, the Mayor’s Office of Housing and Community Development has required, as a standard term of the financing that it provides to new and existing affordable housing projects, that owners of such projects conduct capital needs assessments of their properties at regular intervals and submit them to the department for review and approval. In addition, most MOHCD loan agreements executed since 2002 also require that affordable housing owners deposit specific amounts of project income annually into the project’s replacement reserve in order to meet the long-term capital replacement needs of the property. After MOHCD has approved a CNA, it may use the financial projections within it to adjust the required level of annual deposits to the replacement reserve, as provided in the applicable loan agreement. If MOHCD adjusts this level, a project owner must comply with it until the owner conducts the next CNA and MOHCD approves it and again adjusts the required level of deposits accordingly¹.

Requirements for CNAs of MOHCD-Financed Projects

If a loan or grant agreement for MOHCD financing of an affordable housing project requires the performance of capital needs assessments, the owner/sponsor of the project must follow these requirements when commissioning or conducting directly a CNA.

1. The first CNA of a newly constructed or substantially rehabilitated project must be of the entire project, i.e. 100% of units, in order to establish a baseline of projected capital replacement needs and cost estimates. All subsequent CNAs may be a sampling of no less than 25% of the units, though 100% of building systems and common areas must still be assessed.
2. As much as practicable, the CNA report must conform to Fannie Mae DUS Guidelines and Fannie Mae Form 4327. See attached.
3. The CNA must contain
   a. basic property information, including at a minimum parcel size, number of buildings and units, unit mix, unit square footages and building area;
   b. a narrative description of the project, including the building type, construction materials, major systems and interior/exterior finishes;
   c. a description of the current conditions, expected useful lives of all building elements/systems/finishes, an estimate of the remaining useful life of existing systems and recommendations for further investigation by engineers or construction specialists, if necessary.
   d. an explanation of cost estimating methodologies and assumptions of construction cost inflation.

¹ The requirements summarized above can be found in Sections 10.4 and 12.1 of the MOHCD Loan Agreement.
4. The CNA must include a list of the immediate physical needs of the property and estimated cost to address them, as well as a 20-year replacement reserve analysis, each provided in unprotected, Microsoft Excel financial spreadsheet documents. For an example of a replacement reserve analysis, see the sample titled “Replacement Reserve Analysis – Sample.xlsx.”

5. It must also provide relevant photographs of various areas of the project that show building elements and systems and current conditions that require repair, replacement, upgrade or improved maintenance.

Frequency of Required CNAs

Owners/sponsors of affordable housing projects that were developed with financing from MOHCD and whose loan or grant agreements require capital needs assessments must conduct such assessments every 5 years. MOHCD acknowledges that loan and grant agreements that it executed from 2002 to 2013 require CNAs to be conducted every 3 years. As of the effective date of this policy, owners of projects that were financed during this time period may reduce the frequency with which they conduct CNAs of their projects from 3 to 5 years.